

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 FSE-00 ABF-01

SAJ-01 AGR-20 FEA-02 INT-08 DRC-01 /209 W

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R 111636Z APR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9530

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT ALSO PASS TREASURY AND FRB

EO.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 12

NOTE: FRIDAY, APRIL 12 AND MONDAY, APRIL 15, ARE LEGAL
HOLIDAYS IN THE U.K. AND FOREIGN EXCHANGE MARKETS AND
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GOVERNMENT OFFICES WILL BE CLOSED. THIS CABLE THUS ONLY

COVERS THE PERIOD ON THROUGH THURSDAY, APRIL 11.

BEGIN SUMMARY: IN REACTION TO CUTS IN U.K. INTEREST RATES, THE POUND MOVED DOWN AGAINST THE DOLLAR THIS WEEK, LOSING 270 POINTS ON WEDNESDAY (APRIL 10) TO CLOSE AT \$2.3555. THE WEIGHTED AVERAGE DEPRECIATION WIDENED ON WEDNESDAY TO 17.54 PERCENT FROM 16.64 PERCENT WHERE IT HAD STOOD SINCE LAST THURSDAY. GOLD ROSE BY \$3.25 ON WEDNESDAY AND CLOSED AT \$173.25. THE MAJOR CLEARING BANKS DECIDED TO CUT THE BASE LENDING RATE FROM 13 PERCENT TO 12-1/2 PERCENT ON APRIL 10, THE FIRST CUT SINCE NOVEMBER 1973. THE BUILDING SOCIETIES HAVE POSTPONED PLANS TO RAISE MORTGAGE RATES WHILE DECIDING WHETHER TO ACCEPT THE GOVERNMENT'S OFFER OF A 500 MILLION POUND LOAN. LATEST LENDING FIGURES FOR MID-MARCH RELEASED BY THE CLEARING BANKS SHOW INCREASED LENDING TO INDUSTRY. WHOLESALE PRICES ROSE THREE PERCENT IN MARCH, OR AT AN ANNUAL RATE OF 36 PERCENT. END SUMMARY.

1. THE POUND MOVED DOWN AGAINST THE DOLLAR THIS WEEK IN CONTRAST TO ITS CONTINUED RISE SINCE THE MARCH 26 BUDGET. ON WEDNESDAY (APRIL 10) IT CLOSED AT \$2.3555 COMPARED TO \$2.3935 LAST THURSDAY (APRIL 4). THE AVERAGE WEIGHTED DEPRECIATION AGAINST SMITHSONIAN RATES WIDENED TO 17.54 PERCENT ON APRIL 10 WHICH IS ALSO THE GREATEST SINCE BUDGET DAY. GOLD CLOSED AT ITS HIGH FOR THE WEEK AT \$173.25 BUT DOWN \$3.50 FROM LAST THURSDAY'S CLOSE. THESE MOVEMENTS REFLECT THE DOWNWARD MOVEMENT IN U.K. INTEREST RATES AS SEEN BY THE CUT IN THE MINIMUM LENDING RATE LAST FRIDAY (APRIL 5) TO 12-1/4 PERCENT AND THIS THURSDAY TO 12 PERCENT AND THE CUT IN THE BASE LENDING RATE ON APRIL 10 TO 12-1/2 PERCENT (SEE BELOW).

2. THE MAJOR CLEARING BANKS DECIDED TO CUT THE BASE LENDING RATE TO 12-1/2 PERCENT FROM 13 PERCENT ON WEDNESDAY, APRIL 10. THIS MOVE WILL BRING THE COST OF BANK OVERDRAFTS TO TOP-QUALITY "BLUE-CHIP" CORPORATE CUSTOMERS DOWN TO 13-1/2 PERCENT, WITH OTHER BORROWERS PAYING UP TO 16-1/2 PERCENT OR 17 PERCENT. THE DECISION REFLECTS THE SHARP DROP IN THE GENERAL LEVEL OF MONEY

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MARKET INTEREST RATES THIS WEEK WHICH FOLLOWED THE BANK OF ENGLAND'S MOVE LAST WEEK TO RELIEVE PRESSURE ON BANK RESOURCES BY RELEASING 300 MILLION POUNDS OF SPECIAL DEPOSITS.

3. IN ORDER TO PREVENT MORTGAGE RATES FROM RISING FURTHER, THE GOVERNMENT HAS OFFERED TO LOAN THE BUILDING SOCIETIES 100 MILLION POUNDS A MONTH OVER THE NEXT FIVE

MONTHS ON THE CONDITION THAT NO RATE INCREASES WERE INTRODUCED. HOWEVER, SERIOUS DIFFERENCES OF OPINION EXIST BETWEEN THE GOVERNMENT AND THE BUILDING SOCIETIES WHICH THREATEN THE CHANCES OF REACHING AN EASY AGREEMENT AND TALKS ARE CONTINUING.

4. LENDING BY THE CLEARING BANKS ROSE BY 360 MILLION POUNDS TO 13,918 MILLION POUNDS IN THE FOUR WEEKS TO MARCH 20 DUE TO TAX PAYMENTS TO THE TREASURY, THE BEGINNINGS OF INDUSTRIAL RESTOCKING, AND A SWITCHING OF BORROWING FROM OTHER FINANCIAL INSTITUTIONS TO THE CLEARING BANKS BY INTEREST-CONSCIOUS CUSTOMERS. THE MANUFACTURING SECTOR WAS RESPONSIBLE FOR ABOUT TWO-THIRDS OF THE OVERALL INCREASE WHILE PERSONAL BORROWING CONTINUED TO FALL.

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5. WHOLESALE PRICES CONTINUED TO INCREASE AT AN UNPRECEDENTED RATE IN MARCH AND THE INDEX FOR OUTPUT PRICES OF DOMESTIC SALES ROSE TO 142.4 COMPARED TO 138.2 IN FEBRUARY (1970100). THE JUMP REFLECTS, IN PART, DIRECT AND INDIRECT EFFECTS OF THE SHARPLY INCREASED UNCLASSIFIED

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PRICE OF OIL. HOWEVER, THE PRICE INDEX FOR BASIC MATERIALS AND FUELS PURCHASED BY MANUFACTURING INDUSTRY WAS ONLY ONE PERCENT ABOVE THE FEBRUARY FIGURE (209.4 COMPARED TO 207.2).

6. THE FORWARD DISCOUNTS ON STERLING, AFTER NARROWING AT THE BEGINNING OF THE WEEK, WIDENED SHARPLY ON WEDNESDAY (APRIL 10) IN REACTION TO THE ANNOUNCEMENT OF THE REDUCTION IN THE BASE LENDING RATE TO 12-1/2 PERCENT FROM 13 PERCENT.

	4/4	4/10	CHANGE
1 MONTH		1.47-1/2	1.60 UP 0.12-1/2
3 MONTHS		4.92	4.60 DOWN 0.32
6 MONTHS		9.70	8.75 DOWN 0.95

(ALL FIGURES IN CENTS)

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7. LOCAL AUTHORITY DEPOSIT RATES MOVED STEADILY DOWNWARD OVER THE WEEK.

	4/4	4/10	CHANGE
1 MONTH		13-15/16	13-3/16 DOWN 3/4
3 MONTHS		14-11/16	13-3/4 DOWN 15/16
6 MONTHS		14-5/8	13-13/16 DOWN 13/16

8. EURODOLLAR RATES MOVED STEADILY UPWARD.

	4/4	4/10	CHANGE
1 MONTH		9-11/16	10-1/2 UP 13/16
3 MONTHS		9-13/16	10-5/8 UP 13/16
6 MONTHS		9-7/8	10-3/4 UP 7/8

9. THE MINIMUM LENDING RATE WAS REDUCED TO 12 PERCENT
ON THURSDAY, APRIL 11, FOR THE SECOND WEEK IN A
ROW.

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